

## SECTION 6

# EARNED INCOME TAX CREDIT (EITC)

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### Earned Income Tax Credit (EITC) Overview

The [Earned Income Tax Credit](#) (EITC), also called the Earned Income Credit (EIC), is a refundable federal income tax credit for low-income working individuals and families. Congress created the EITC in 1975 to offset federal taxes paid by low-income wage earners and to serve as a work incentive. The credit reduces the amount of Federal tax owed and can result in a refund check for eligible taxpayers whose EITC exceed the amount of taxes owed.

Income and family size determine the amount of the EITC. Taxpayers without children also may qualify, however they are eligible for a much smaller amount than are taxpayers with qualifying children.

The value of the credit rises as income rises, to a maximum of \$4,204 and then begins to phase out at certain income levels. A table showing the credit amounts at various income levels can be found in the instruction booklet for Form 1040 and in [Publication 596, Earned Income Credit](#).

To qualify for the credit, both the earned income and the adjusted gross income for 2004 must be less than \$30,338 for a taxpayer with one qualifying child (\$35,458 for married filing jointly), \$34,458 for a taxpayer with more than one qualifying child (\$35,458 for married filing jointly), and \$11,490 for a taxpayer with no qualifying children (\$12,490 for married filing jointly).

The taxpayer can calculate the credit by using a special worksheet included in the EITC instructions in the 1040, 1040A, and 1040EZ tax packages. Instructions in these packages may require some taxpayers to use a worksheet in Publication 596 instead of the worksheet in the tax package.

The Advance EITC (AEITC) allows certain taxpayers to receive the credit in installments throughout the year, instead of a lump sum at the time of filing. Taxpayers who expect to qualify for AEITC in Tax Year (TY) 2004 should sign up beginning in January 2004. The credit will appear in each paycheck, equally dispersed throughout the year.

Taxpayers qualify for Advance EITC in 2004 if they are working and expected to:

- Have 2004 income below \$30,000
- Have at least one qualifying child; and
- Qualify for the regular EITC in TY 2004.

Taxpayers who choose Advance EITC must complete Form W-5 and submit the bottom portion to their employer. They should keep the top portion for their own records. Employers should then include the additional money in each paycheck. The AEITC payments are capped at \$1,563. The taxpayer should claim any

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additional EITC to which they may be entitled when they file their income tax returns.

If the taxpayer's income rises above the dollar limit, or the taxpayer no longer qualifies for the EITC, the taxpayer will have to repay all Advance EITC money when he/she files his/her tax return.

#### **EITC - What's New for 2004**

All the resources you need as a Tax Professional to help your clients claim the EITC they deserve are available at [www.irs.gov/eitc](http://www.irs.gov/eitc) or by calling 1-800-829-1040.

#### **EITC Information for Tax Preparers**

[EITC Toolkit for Tax Professionals \(for Tax Year 2003 and beyond\)](#)

(Publication 3107E, 11/2003) contains useful information for return preparers on areas of the credit such as: EITC Rules, Identification Numbers, Due Diligence, Disallowance, and answers to frequently asked questions.

[Electronic Toolkit for Tax Preparers](#)

Everything you need to help your clients claim the EITC they deserve is just a click away. ([www.eitcfortaxpreparers.com](http://www.eitcfortaxpreparers.com))

[Frequently Asked Questions](#)

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